Evaluating Social Performance in Dual Banking Systems: The Case of North Sumatra

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Abstract

This study explores how Corporate Social Responsibility Orientation (OCSR), along with attitudes, competencies, government regulations, public pressure, organizational environmental pressure, and mass media, influences the social performance of Islamic and conventional banks in North Sumatra. Using a mixed-methods approach, data were collected from 106 respondents from five Islamic banks and 120 respondents from fifteen conventional banks. Quantitative analysis was conducted using SEM-PLS, while qualitative insights were derived from in-depth interviews and analyzed with NVivo 12. The findings reveal that OCSR in both types of banks encompasses philanthropic, legal, ethical/social, and economic dimensions. However, the drivers of social performance differ across the two banking systems. In Islamic banks, OCSR, employee competencies, and public pressure were the most influential, while in conventional banks, employee attitudes, government regulations, organizational environmental factors, and media influence played a more prominent role. Notably, across both banking models, employee motivation toward CSR is strongly influenced by philanthropic values and religiosity. This research provides new empirical evidence on the distinctive ways CSR is implemented in Islamic versus conventional banking in Indonesia, which contrasts with trends observed in other countries. The study highlights the importance of aligning CSR strategies with both institutional characteristics and the socio-religious context. As the first study in Indonesia to examine CSR orientation using Carroll's Pyramid among employees in both Islamic and conventional banks, it offers a unique contribution by identifying a local CSR framework that differs from those found in other regions such as Asia, the Americas, and Europe.

Keywords*: Corporate Social Responsibility Orientation (OCSR), Social Performance of Banks, Islamic and Conventional Banking, Institutional and Societal Pressures, Mixed-Methods Approach.*

1. Introduction

Corporations play a crucial role in society by generating employment and providing goods and services. However, their operations also lead to significant social and environmental externalities. In response, Corporate Social Responsibility (CSR) has transformed from a voluntary initiative into both a moral obligation and a legal requirement, as enshrined in Indonesia's Law No. 40 of 2007 and other related regulations (Tata, 2020). Despite the widespread adoption of CSR standards such as ISO 14000, the Global Reporting Initiative (GRI), and Islamic CSR Reporting, recurring social and environmental conflicts—particularly in North Sumatra—raise concerns about the effectiveness of CSR practices (Sanjaya, 2021).

In North Sumatra, economic, social, and cultural conflicts reflect the complex relationships between corporate interests, local communities, and the state, particularly in the mining and natural resource sectors. High-profile disputes, such as those involving PT G-Resource Martabe and PT Toba Pulp Lestari, highlight tensions over indigenous land rights, environmental degradation, and the erosion of livelihoods (Rahman et al., 2019). These disputes underscore the limitations of CSR programs in addressing grassroots concerns and the fragility of corporate-community relations in resource-dependent regions (Smith & Porter, 2022).

Beyond ecological and economic consequences, many conflicts in the region are also driven by sociocultural and identity-based issues. Incidents such as the 2016 Tanjungbalai riots and land disputes in Medan involving the Air Force illustrate how religious intolerance and land ownership intersect with structural inequalities (Nasution, 2021).

This study investigates whether CSR orientation and external pressures can improve the social performance of Islamic and conventional banks in North Sumatra. While CSR is legally mandated through regulations such as Law No. 40/2007 and POJK No. 5/POJK.03/2016, empirical evidence suggests that its implementation—particularly in Islamic banking—remains suboptimal and does not fully align with Islamic ethical values (Abdullah & Hadi, 2020). Despite their moral foundations, Islamic banks have yet to demonstrate a distinct advantage over conventional banks in terms of social performance (Hasan et al., 2023). To address this research gap, the study incorporates recent literature (e.g., Al-Saidi & Elmassri, 2025; Martínez-Ferrero et al., 2025) that highlights how cultural, institutional, and media visibility factors continue to reshape CSR practices globally.

This research adopts Carroll's CSR Pyramid as a theoretical framework to explore CSR orientation, particularly how employees' attitudes and commitment influence social outcomes. The study also examines the role of mass media and regulatory pressures in shaping Social performance (Cummings & Wright, 2021). As CSR expectations grow amid increasing scrutiny from the public and regulatory bodies, banks must navigate these pressures while aligning their strategies with sustainable and inclusive development goals (Fischer & Lehmann, 2020). To strengthen the international scope, comparisons are drawn with studies from the MENA region and Europe, where regulatory enforcement and cultural dynamics present contrasting CSR orientations (Al-Saidi & Elmassri, 2025; Martínez-Ferrero et al., 2025).

Addressing both normative and empirical gaps, this study provides a comparative analysis of CSR in Islamic and conventional banking using a mixed-methods approach. By integrating quantitative analysis (SEM-PLS) with qualitative content analysis (Nvivo), and utilizing primary data from bank employees, this research bridges the gap between ideal CSR models and real-world practices (Johnson et al., 2022). The study's novelty lies in its focus on employee-level perspectives, application of Carroll's framework within the Indonesian banking context, and its empirical insights into how CSR is shaped by internal values and external pressures.

2. Research Method

This study adopts a mixed-methods research design using a sequential explanatory strategy, which integrates both quantitative and qualitative approaches in a phased manner. The first phase comprises a structured questionnaire distributed to respondents, followed by data analysis using Structural Equation Modeling with Partial Least Squares (SEM-PLS) to test the proposed hypotheses. In the second phase, qualitative data were collected through semi-structured interviews with key informants to explore and explain in greater depth the findings obtained from the quantitative stage.

The discussion of this research methodology encompasses several core components: (1) the target population and sampling method, (2) data collection techniques, (3) research variables and indicators, and (4) data analysis procedures, including construct validity, reliability, and SEM-PLS model fit testing.

The unit of analysis for this study is Islamic Commercial Banks (ICBs) operating in Indonesia. As of 2023, the number of ICBs stood at 12, following the merger of three Islamic banks into a single entity, Bank Syariah Indonesia (BSI). The consolidation reflects recent institutional transformations within Indonesia's Islamic banking sector (Otoritas Jasa Keuangan, 2023).

The sampling strategy applied in this study is purposive sampling, which selects respondents based on pre-defined eligibility criteria. While purposive sampling allows targeted insights from relevant respondents, it also limits generalizability. Therefore, future studies should expand to include employees from broader geographic areas, rural branches, and non-managerial roles to enhance external validity (Al-Qudah et al., 2024).

This approach allows the study to capture expert insights and institutional practices that are relevant to CSR implementation and organizational performance in the Islamic banking context. Nevertheless, the study acknowledges that the reliance on purposive sampling may overlook grassroots employee perspectives, which could provide different insights into CSR orientation.

1. Employees working in Islamic banks located in North Sumatra and officially registered with Bank Indonesia (BI) in the year 2024.
2. Employees serving in roles related to:
a. Corporate governance and secretarial functions, including branch or sub-branch heads or corporate secretaries.
b. Financial control, compliance, and internal supervision units (e.g., supervisory officers or unit heads).
c. CSR implementation, particularly staff directly involved in the design and execution of Corporate Social Responsibility programs within the bank.

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Table 1: Variable Measurement

Variable	Indicators	Sources
(Y1) GRI Social Performance	1. Economic 2. Environmental 3. Social Work Practices 4. Human Rights 5. Society 6. Product Liability	Global Reporting Initiative (GRI), 2021
(Y2) Islamic Social Reporting (ISR) Performance	1. Finance and Investment 2. Products 3. Staffing 4. Community 5. Environment	Hassan & Harahap (2010)
(X1) CSR Orientation	1. Economic Responsibility 2. Philanthropic Responsibility 3. Legal Responsibility 4. Ethical Responsibility	Schrempf-Stirling & Palazzo (2022)
(X2) Employee Attitude	1. Job Satisfaction 2. Organizational Commitment	Meyer et al. (2021)
(X3) Employee Competence	1. Achievement and Action 2. Helping and Human Services 3. Influence 4. Managerial Skills 5. Cognitive Abilities 6. Personal Effectiveness	Campion et al. (2020)
(X4) Community Pressure	1. Response to Community Input 2. Support for Social-Community Activities 3. Corporate Accountability to Society 4. Frequency of the Company's Social Engagement	Freeman et al. (2020)
(X5) Government Regulation	1. Corporate Response to Social-Environmental Regulations 2. Response to Social Disclosure Regulations 3. Support for Government Programs 4. Regulatory Compliance	Albitar et al. (2020)
(X6) Pressure from Environmental and Social Organizations	1. Response to Environmental Organizations 2. Support for Environmental Organization Activities 3. Company's Attitude Toward External Input 4. Frequency of Dialogue with Environmental Stakeholders	Schoeneborn et al. (2020)
(X7) Mass Media Pressure	1. Response to Media Pressure on Corporate Activities	Etter et al. (2019)

3. Results and Discussion

The questionnaire return rate in this study reflects a high level of responsiveness from both Islamic and conventional banks, indicating strong engagement from institutions within the North Sumatra region. Out of 285 questionnaires distributed, 248 were returned, yielding a response rate of 87%. Of these, 226 responses (79%) were deemed suitable for analysis. Specifically, among Islamic banks, 123 of the 147 questionnaires distributed were returned (83%), and 106 (72%) were usable. In contrast, conventional banks showed an even higher return rate, with 125 of 138 questionnaires returned (90%), and 120 (86%) deemed valid for analysis.

While Islamic banks constitute only 12 institutions nationally compared to 84 conventional banks (OJK, 2023), the proportion of active Islamic banks participating in this study from North Sumatra was notably higher (84%) than that of conventional banks (54%). This

suggests a comparatively greater engagement and operational activity among Islamic banks in the local context, underscoring their substantial role in the regional banking landscape.

The high return and usability rates of the questionnaires suggest that respondents were highly attentive and interested in the subject matter, which enhances the reliability and validity of the empirical findings (Hair et al., 2021).

This study employs a quantitative approach using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method via SmartPLS software. The analytical process was conducted in two phases. The first phase involved assessing validity and reliability through outer model evaluation, particularly examining outer loadings and conducting discriminant validity testing using the Average Variance Extracted (AVE) criteria. The second phase encompassed hypothesis testing to examine the structural relationships between constructs.

Table 2: Table of Average Variance Extracted (AVE) Islamic Bank and Conventional Bank

	Average Variance Extracted (AVE)
CSR Orientation (X1)	0.646
Attitude (X2)	0.772
Competence (X3)	0.727
Community Pressure (X4)	0.792
Government Regulation (X5)	0.853
Social & Environmental Organization Pressure (X6)	0.769
Mass Media Pressure (X7)	0.711
Corporate Social Performance of Islamic Banks (Y1)	0.674
Islamic Banks (Y2)	0.646

The Average Variance Extracted (AVE) values presented in the table indicate that all variables exceed the threshold of 0.5, thereby satisfying the criteria for convergent validity. This confirms that the indicators are valid and effectively represent their respective latent constructs. Subsequently, reliability assessment was conducted using the Composite Reliability (CR) values, which provide a more comprehensive measure of internal consistency compared to traditional Cronbach's alpha (Hair et al., 2022; Fornell & Larcker, 1981).
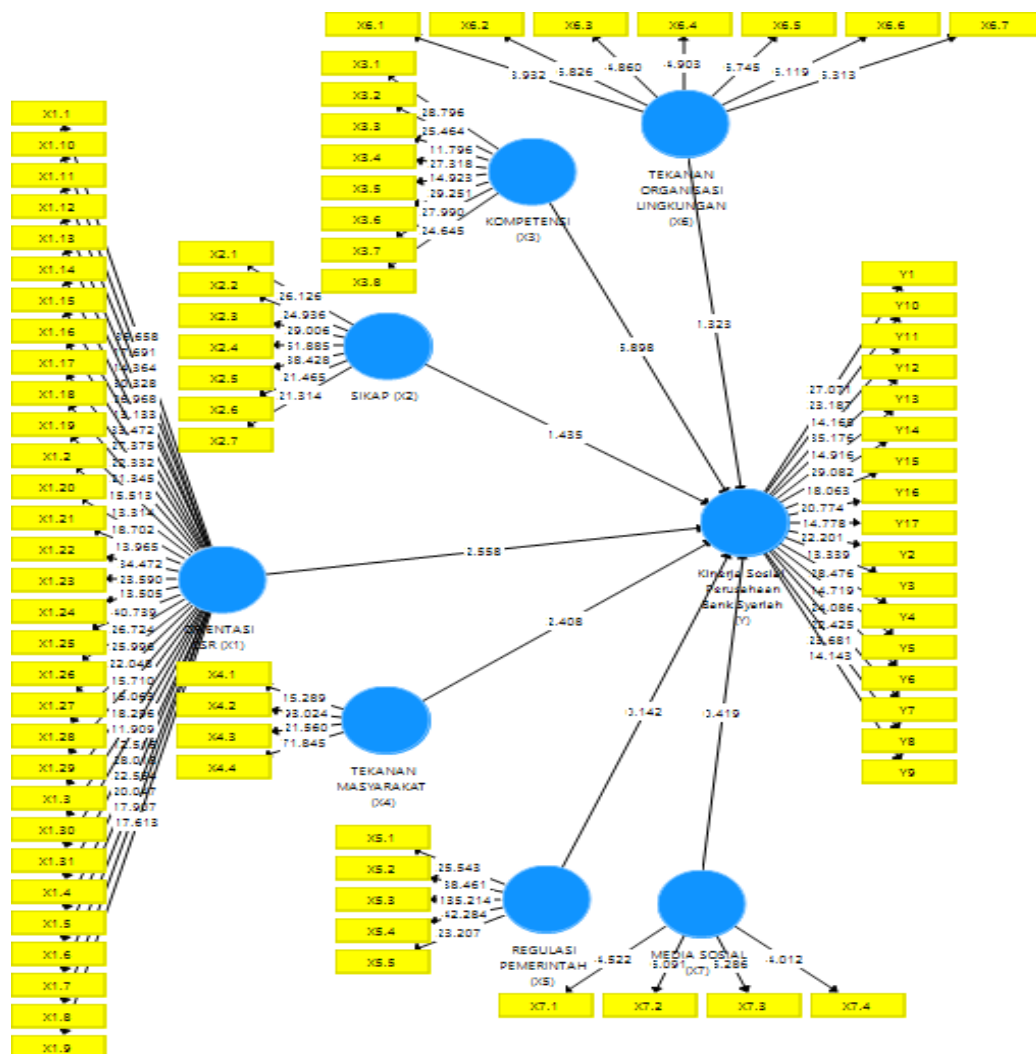

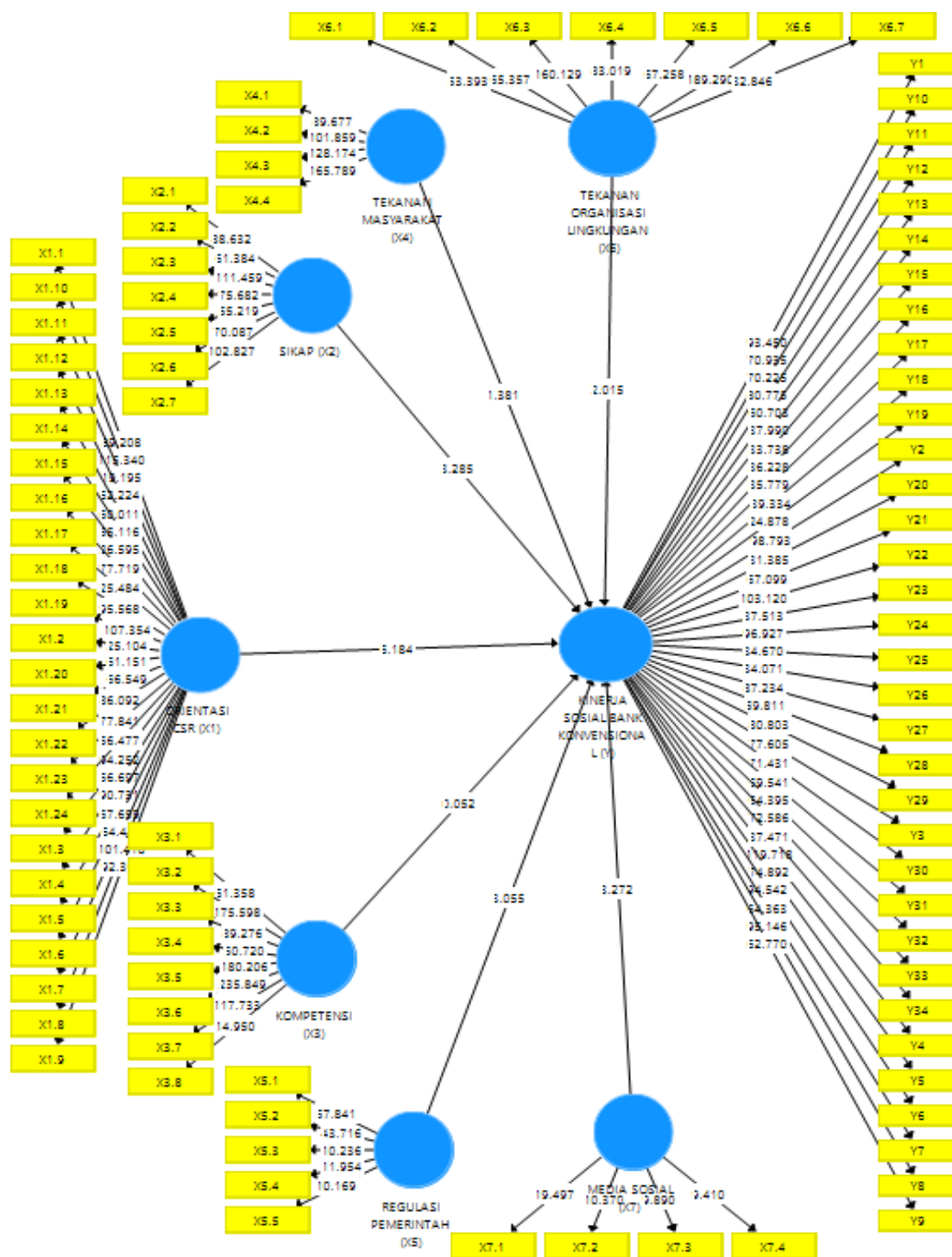**Fig. 1 A:** Inner Model of Islamic Banks

Fig. 1 B: Inner Model Conventional Bank

Table 3: Recapitulation of Comparison Results

		Islamic Bank		Conventional Bank	
	Testing				
Hypothesis	**Path**	**P Values**	**Result**	**P Values**	**Rsult**
H1	CSR Orientation (X1) → Corporate Social Performance of Banks	0,005	Significant	0,000	Significant
H2	Attitude (X2) → Corporate Social Performance of Banks	0,076	Not Significant	0,001	Significant
H3	Competence (X3) → Corporate Social Performance of Banks	0,000	Significant	0,479	Not Significant
H4	Public Pressure (X4) → Corporate Social Performance of Banks	0,008	Significant	0,084	Not Significant
H5	Government Regulation (X5) → Corporate Social Performance of Banks	0,444	Not Significant	0,001	Significant
H6	Environmental Organizational Pressure (X6) → Bank Corporate Social Performance	0,093	Not Significant	0,022	Significant
H7	Mass Media (X7) → Corporate Social Performance of Banks	0,337	Not Significant	0,001	Significant

The findings confirm that CSR orientation significantly enhances the social performance of both Islamic and conventional banks. Nonetheless, variations exist between the two systems.

Figures 1A and 1B illustrate the inner model results for Islamic and conventional banks. Specifically, Figure 1A highlights significant paths for CSR orientation, competence, and community pressure toward social performance in Islamic banks, while attitude, government regulation, and media influence were not significant. In contrast, Figure 1B demonstrates that in conventional banks, CSR orientation,

attitude, regulation, NGO pressure, and media all showed significant paths. Figures 2A and 2B, generated through NVivo 12 analysis, present word cloud visualizations. In Islamic banks (Figure 2A), recurring themes such as "religiosity," "community," and "competence" dominate employee narratives. In conventional banks (Figure 2B), words like "regulation," "media," and "attitude" appear more prominently.

Interestingly, non-significant results (e.g., attitude in Islamic banks, government regulations in Islamic banks) may be explained by the underdeveloped integration of Islamic ethical values into organizational culture and weak regulatory enforcement. These findings align with global evidence that CSR practices are shaped by cultural, institutional, and media visibility factors (Al-Saidi & Elmassri, 2025; Martínez-Ferrero et al., 2025).

This corroborates earlier research by Harto (2013), Arli and Tjiptono (2014), and Maignan et al. (1999), which highlighted the positive association between CSR orientation and social performance, particularly through legal and philanthropic initiatives. Nonetheless, variations in CSR priorities observed in studies from Malaysia and other contexts suggest that factors such as religiosity, culture, gender, education, and experience distinctly shape CSR motivations (Rahman & Saima, 2021; Hussain et al., 2023). These discrepancies underscore the context-specific nature of CSR practices across banking institutions.

From a theoretical perspective, the results reinforce Signal Theory, which posits that CSR functions as a communicative tool signaling a firm's ethical commitment to stakeholders (Spence, 1973). The findings also align with Legitimacy Theory and Stakeholder Theory, emphasizing the necessity for corporate actions to align with societal values and expectations (Suchman, 1995; Freeman, 1984). Notably, while employee attitude positively influences social performance in conventional banks, this effect is absent in Islamic banks. This difference is attributed to the underdeveloped integration of Islamic values into internal corporate cultures, despite the presence of regulatory frameworks and strategic blueprints such as the Six Pillars of Islamic Banking Development (Dusuki & Abdullah, 2007; Khan & Ali, 2022).

Competence emerges as a critical determinant of social performance within Islamic banks. Employees exhibiting strong competencies demonstrate superior problem-solving, communication, and collaboration capabilities—factors directly impacting CSR outcomes (Wibowo, 2014). Furthermore, within the maqāṣid al-sharīʿah paradigm, competencies contribute not only to organizational performance but also to preserving core values such as religion, intellect, and wealth, thereby reinforcing both spiritual and functional imperatives of Islamic banking (Kamali, 2017; Abdullah & Ahmad, 2023).

Community pressure significantly influences CSR implementation in Islamic banks but not in conventional banks. This suggests a stronger alignment between religiosity and social expectations within Islamic financial institutions. Conversely, limited public awareness and education in the conventional sector weaken societal pressure, leading to CSR being perceived more as a compliance burden than a strategic asset (Mardani et al., 2021). These results imply that cultural and spiritual foundations significantly shape stakeholder influence in CSR dynamics, especially within the Islamic banking context.

Lastly, the study reveals divergent impacts of external pressures such as government regulations, NGOs, and media. While government regulations enhance CSR in conventional banks, their effect is negligible in Islamic banks, indicating gaps in enforcement or contextual relevance (Abdullah et al., 2022. Similarly, social and environmental organizational pressures exert a stronger influence on conventional institutions, likely due to broader scrutiny and stakeholder engagement. Media influence, consistent with agenda-setting theory, significantly affects CSR strategies in conventional banks, whereas Islamic banks remain less impacted, possibly due to a localized CSR focus and limited media exposure (McCombs, 2018; Farooq et al., 2020). These discrepancies highlight the need for more tailored strategies to strengthen external accountability mechanisms within the Islamic banking sector.

The R-squared values for the social performance models reveal that 95.3% of the variance in Islamic banks' social performance is explained by CSR Orientation, Attitude, Competence, Community Pressure, Government Regulation, Social/Environmental Organizational Pressure, and Mass Media. For conventional banks, this figure is even higher at 98.3%.

Differences between Islamic and conventional banks in North Sumatra were statistically confirmed:

1. CSR Orientation positively and significantly influences social performance in both Islamic and conventional banks (hypothesis accepted).
2. Attitude negatively and insignificantly influences Islamic banks' social performance (hypothesis rejected), but positively and significantly influences conventional banks (hypothesis accepted).
3. Competence positively and significantly influences Islamic banks (hypothesis accepted), but not conventional banks (hypothesis rejected).
4. Community Pressure positively and significantly influences Islamic banks (hypothesis accepted), but not conventional banks (hypothesis rejected).
5. Government Regulation has no significant effect on Islamic banks (hypothesis rejected) but significantly influences conventional banks (hypothesis accepted).
6. Environmental Organizational Pressure is insignificant in Islamic banks (hypothesis rejected) but significant in conventional banks (hypothesis accepted).
7. Mass Media exerts a positive but insignificant influence on Islamic banks (hypothesis rejected), whereas it significantly affects conventional banks (hypothesis accepted).

Based on the summary of responses, the four CSR orientations were ranked as follows:

1. Philanthropy: Islamic banks 4.37, conventional banks 3.98
2. Legal: Islamic banks 3.89, conventional banks 3.96
3. Social: Islamic banks 3.83, conventional banks 3.94
4. These results indicate no fundamental differences in CSR orientation between employees of Islamic and conventional banks; however, the order of CSR priorities contrasts with findings in other countries, further emphasizing contextual influences (Nguyen & Tran, 2023).

Fig. 2 A: Word Cloud of Islamic bank   **Fig. 2 B:** The final stage was analyzed with N-Vivo

In the final phase of analysis, NVivo 12 software was employed to triangulate quantitative findings with qualitative insights. Figures 1A and 1B illustrate word cloud visualizations generated by NVivo, where the prominence of terms reflects their frequency in respondent narratives. These visualizations highlight key themes articulated by participants from both Islamic and conventional banks, thereby corroborating and enriching the quantitative data. This methodological approach enhances the study's validity by integrating diverse data sources, aligning with best practices in mixed-methods research.

This study contributes to theoretical discourse by proposing a revised hierarchy of CSR orientation within the banking sector of North Sumatra. The sequence—philanthropic, legal, ethical/social, and economic—diverges from Carroll's (1991) traditional CSR pyramid, which prioritizes economic responsibilities. This variation underscores the influence of cultural and religious values in shaping CSR frameworks in emerging economies. Adapting Carroll's model to this localized context enhances its explanatory power and supports the integration of socio-religious norms into CSR theory.

Furthermore, the findings reinforce the applicability of stakeholder theory, signaling theory, and legitimacy theory in understanding CSR practices. Stakeholder theory posits that organizations should consider the interests of all stakeholders, not just shareholders, in their operations. Signaling theory suggests that CSR activities serve as indicators of a firm's commitment to ethical practices, thereby influencing stakeholder perceptions. Legitimacy theory emphasizes the need for organizations to align their operations with societal norms and expectations to maintain legitimacy. These theoretical frameworks collectively elucidate how internal employee perceptions and external societal pressures influence social performance across different banking models.

From a managerial perspective, the established CSR orientation hierarchy offers a strategic framework for enhancing CSR implementation in both Islamic and conventional banks. Managers can leverage this hierarchy to align CSR initiatives with employee values, particularly philanthropic and religious motivations, thereby improving engagement and social outcomes. Additionally, the study identifies areas requiring focused managerial attention: fostering stronger Islamic attitudes among employees, enhancing competence development in conventional banks, and addressing the influence of community and media on social performance.

Islamic banks should consider internal policy enhancements to compensate for the relatively weaker impact of external regulatory and environmental pressures. Conversely, conventional banks are advised to be more responsive to community input and media narratives. Overall, these managerial implications guide banks in aligning organizational behavior with evolving stakeholder expectations and regional values to optimize social performance.

4. Conclusion

This study concludes that the orientation of Corporate Social Responsibility (CSR) within Indonesia's banking sector—specifically in North Sumatra—is shaped by four hierarchical dimensions: (1) Philanthropic, (2) Legal, (3) Ethical/Social, and (4) Economic responsibilities. This sequence departs significantly from the CSR frameworks in other Asian countries, such as Japan, and Western economies like the United States, where economic responsibility is often prioritized (Carroll, 2016; Jamali & Karam, 2018). The dominant philanthropic orientation in Indonesia appears to be deeply influenced by religious and moral values, particularly Islamic teachings. This is reflected in the Qur'anic verse Al-A'raf (7:56), which emphasizes the ethical imperative to engage in socially beneficial and environmentally responsible behavior.

Empirical evidence from both quantitative analysis and qualitative interviews with banking professionals further confirms the unique structure of CSR orientation in the region. The findings reveal that CSR orientation has a significant impact on the social performance of both Islamic and conventional banks. However, the underlying determinants vary between these two institutional types. In conventional banks, employee attitudes, media influence, and regulatory pressures are primary drivers of social performance (Arli & Tjiptono, 2021). In contrast, for Islamic banks, employee competence and community-based pressures are more influential, while regulatory and environmental/social organizational pressures appear to have a limited effect.

These divergent outcomes highlight the differing institutional logics (Thornton et al., 2012) and organizational maturity between Islamic and conventional banks operating in Indonesia. Additionally, the results underscore a noticeable disparity in social performance outcomes between Islamic and conventional banks. This divergence can be attributed to differences in organizational culture, stakeholder engagement strategies, and internal CSR capacity—particularly in aligning institutional values with CSR implementation (Farooq et al., 2017).

The hierarchical structure of CSR orientation—encompassing philanthropic, legal, ethical/social, and economic dimensions—provides a conceptual framework that guides social performance strategies across both banking systems. This framework, validated by empirical data and reinforced by narrative insights, offers a practical guide for financial institutions to develop CSR policies that are sensitive to local cultural, religious, and institutional dynamics.

To strengthen the policy implications, international best practices are highlighted. For example, Malaysia's Islamic banking sector has implemented CSR-linked microfinance programs. In the MENA region, regulatory frameworks increasingly tie CSR activities to sustainability goals. Meanwhile, in Europe, CSR implementation in banking is reinforced by the EU's Non-Financial Reporting Directive (NFRD). Learning from these practices, Indonesian policymakers and banks could adapt international models to strengthen local CSR implementation while respecting cultural and religious contexts.

Ultimately, this study contributes to the contextualization of CSR theory within emerging market contexts by integrating religiosity, cultural norms, and institutional frameworks. In doing so, it enriches both academic debates and policy discourse surrounding CSR implementation in the financial services sector in Southeast Asia.

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